DOCUMENT RESUME

ED 066 808 EA 004 503

AUTHOR	Burke, James M.
TITLE	The California Property Tax Case: Implications for Financing Schools in Oregon.
INSTITUTION	Oregon Univ., Eugene. Bureau of Business and Economic Research.
PUB DATE	Feb 72
NOTE	4p.; Oregon Business Review v31 n2 pp1-2 4 Feb '72
EDRS PRICE	MF-$0.65 HC-$3.29
DESCRIPTORS	Assessed Valuation; *Educational Finance; Equal Education; *Equalization Aid; *Expenditure Per Student; *Property Taxes; School Taxes; State Action; *Tax Rates; Tax Support
IDENTIFIERS	Full State Funding; Oregon

ABSTRACT

This article examines some implications of the Serrano vs Priest decision for Oregon's system of financing public schools. The author presents one alternative financing method -- a Statewide system to assess, collect, and disburse to each district or county an amount equalized on a per student basis. The status of the school financing system in each of the State's 36 counties and some possible variations in both the methods and the extent of the current system arising from adoption of the alternative plan are considered. (Author/JF)

The California Property Tax Case: Implications for Financing Schools in Oregon

James M. Burke*

The widespread use of local property taxes to finance local public schools has recently been seriously questioned by the California Supreme Court. The court ruled, in *Serrano v. Priest*,[1] that differentials in school per student expenditure associated with geographic location within the state amounted to denial of the equal protection portion of the 14th Amendment of the U.S. Constitution. The purpose of this report is to examine some implications of the decision that might concern Oregon's elementary and secondary schools.

Serrano v. Priest, also referred to as the California Property Tax Case, has prompted a variety of proposals to serve as alternatives to the present methods of financing local public schools. One such alternative, a statewide system to assess, collect and disburse to each district or county an amount equalized on a per student basis, will be examined. The status of the school financing system in each of the state's thirty-six counties, and possible variations in both methods and extent of the current system arising from adoption of the alternative plan, will be considered.

Elementary and secondary school financing in Oregon currently relies upon support from two major sources: (1) the Basic School Support Fund from state funds, and (2) the local property tax levies within a given district. In fiscal year 1970-71 these sources accounted for 21 percent and 74 percent, respectively, of school district revenues. The remaining 5 percent was obtained from other state and federal sources. Any effects that funds other than locally collected property taxes have on a particular district's financing structure will be assumed unchanged.

Locally collected and distributed property taxes accounted for revenues of $341,437,615 in 1970-71. If centrally collected and redistributed, this amount would allow a state-wide per student expenditure of $674.93. Distribution to each county would thus be based on a weighted average daily membership (ADM), a computed average attendance in grades 1-12 for each county. A tax rate of $18.159 per $1,000 of assessed value (AV) on Oregon's assessed real and personal property would be necessary to generate the funds.

Table I contains county data for current per student expenditures (column 3), differentials between current expenditures and the equalized amount (column 4), and current tax rates. It is noteworthy that these data indicate that 20.1 percent of the state's school children, in nine counties, are in programs with expenditure differentials exceeding $100 below the equalized minimum. Of the nine, all except Marion have tax rates below the proposed standard rate of $18.159 $1,000 assessed value. Furthermore, in the group of nine, all but Josephine and Marion counties have per capita true cash values (TCV) of assessed worth in excess of the state-wide per capita TCV of $8,991 [2, p. 49]. Although these counties would gain from a redistribution of tax revenues, the data suggest that the current disparity is not widely based on a lack of resource endowments and thus an inability to pay.

Seven other counties would also gain revenue from a redistribution. Three of this group (Coos, Jackson, Yamhill) have present tax rates above $18.159. Thus, of the sixteen that would gain revenue for increased student expenditure, twelve would also face a tax increase.

The implication of an equalized support plan is that, as well as raising the support levels in sixteen counties, support levels in the remaining twenty counties would fall. This raises the questions of district operation at the lower levels of financial support—especially in cases where the economies of large scale operation are absent—and of what changes in present program structure might be associated with a cut in funds. One might assume that basic programs would remain at the top of priority lists while other programs would be placed in jeopardy. There are however quantitative measures of the effects of an expenditure decrease that are apparent.

Twenty of the state's thirty-six counties now have local property tax support levels in excess of the $674.93 per student expenditure that would be generated by the equal-

* Mr. Burke is a graduate student in the Department of Economics at the University of Oregon.

[1] 5 Cal. 3d 684. Pamphlet 25. Sept. 14, 1971 and 5 Cal. 3d 884a, Pamphlet 30, Nov. 4, 1971.

Oregon Business Review

Vol XXXI EUGENE OREGON, FEBRUARY 1972 No 2

BUREAU OF BUSINESS AND ECONOMIC RESEARCH
UNIVERSITY OF OREGON

Donald A. Watson, Director — Jeannette F. Lund, Associate Editor

Published monthly. Entered as second-class matter 10 August 1948 at the post office at Eugene, Oregon 97403, under the act of 24 August 1912. Persons wishing to receive the *Review* regularly should address requests to the Bureau. There is no subscription charge to persons living in Oregon. The charge to persons residing outside Oregon is one dollar per year.

ized support proposal. Fourteen of the twenty have per capita TCV in excess of the $8,991 state-wide average, but only ten have tax rates that are currently above the equalized level of $18.159. Figures for these counties are also shown in Table I.

It has been suggested that where a county might choose to increase the expenditure levels beyond the equalized amount of $674.93 per student, special assessments within that county should be permitted. This does not contradict the ruling of *Serrano v. Priest* because the initial distribution of funds would presumably equalize disparities in expenditure associated with a county's resources. Column 7, Table I shows the increase in the tax rate per $1,000 of assessed value that would be necessary to raise levies sufficiently to meet current expenditure levels. This assumes each county would be initially taxing at the base rate of $18.159. Column 8, Table I shows the percentage change from current rates if such special assessments were adopted.

Nine of the twenty counties with expenditures exceeding $674.93 have tax rates of more than $20 $1,000 AV. Even if the additional amounts noted in column 7 were paid, seven of these nine counties would realize a tax decrease from their present levels. Among the remaining counties which would face an increase in tax rates, all except four (Josephine, Multnomah, Polk, Union) have per capita TCV's that exceed the state average, most by a substantial amount. This fact would be a major issue in considering the equity of the alternative plan.

(concluded on page 4)

TABLE I

Oregon Elementary and Secondary School Attendance, Expenditures and Taxation

(1) County	(2) Average Daily Membership (ADM)*	(3) Per Student Expenditures 1970-71[b]	(4) Differential between current per student expenditure and equalized amount[c]	(5) Per Capita True Cash Value (TCV)[d]	(6) Current Tax Rate per $1000 of Assessed Value[e]	(7) Additional tax rate per $1000 AV to meet current expenditure[f]	(8) Percentage Change in Current Tax Rates[g]
		($)	($)	($)	($)	($)	
Baker	3775	722.82	47.89	13387	13.660	.905	39.56
Benton	10819	895.16	220.23	7097	25.376	6.243	(3.81)
Clackamas	43798	709.03	34.10	8509	21.933	1.072	(12.18)
Clatsop	5763	980.20	305.27	12161	16.314	5.081	12.15
Columbia	8855	505.59	(169.34)	9118	17.055	. .	6.47*
Coos	15125	660.21	(14.72)	8534	20.704	. .	(12.29)*
Crook	2693	516.58	(158.35)	9965	13.978	.	29.91*
Curry	3647	584.38	(90.55)	10515	15.183		19.60*
Deschutes	8055	727.96	53.03	9304	20.705	1.517	(2.92)
Douglas	20274	520.30	(154.63)	11229	13.094	.	38.68*
Gilliam	696	1181.60	506.67	20016	15.255	6.541	61.91
Grant	1985	536.98	(137.95)	9401	16.202	. .	12.08*
Harney	2014	890.69	215.76	11735	21.165	5.132	9.91
Hood River	3619	812.92	137.99	9572	23.310	3.957	(5.12)
Jackson	23450	640.60	(34.33)	8167	19.457	....	(6.67)*
Jefferson	2647	807.22	132.99	21693	11.522	1.888	73.99
Josephine	9090	521.44	(153.49)	7400	17.918	....	1.35*
Klamath	12447	518.47	(156.46)	10494	12.295	. . .	47.69*
Lake	1877	485.93	(189.00)	15073	9.540	....	90.35*
Lane	53527	755.41	80.48	8437	22.461	2.398	(8.48)
Lincoln	6228	654.83	(20.10)	14547	10.885	....	66.83*
Linn	10770	710.13	35.20	19503	17.882	.886	6.50
Malheur	6879	517.94	(156.99)	10458	14.693	....	23.59*
Marion	37711	561.91	(113.02)	7405	18.913	....	13.99)*
Morrow	1223	964.54	289.61	19989	13.215	3.968	67.44
Multnomah	114891	637.82	(37.11)	8341	15.782	....	15.06*
Polk	5933	959.77	284.84	7563	21.298	6.321	14.94
Sherman	580	1176.99	502.06	25278	12.619	5.383	86.56
Tillamook	4410	713.82	38.89	10919	16.078	.876	18.39
Umatilla	11424	696.07	21.74	8743	20.265	.632	(7.27)
Union	4822	620.61	(54.32)	8748	17.653	....	2.87*
Wallowa	1687	753.56	78.65	30713	9.457	.612	98.49
Wasco	5164	772.22	97.29	21515	18.488	2.329	10.81
Washington	39444	806.45	131.52	8905	22.620	3.689	(3.41)
Wheeler	473	693.63	18.70	14332	12.391	.334	49.25
Yamhill	11362	579.72	(95.21)	7763	21,097	....	(13.93)*

a. Source: Table 1, page 6; Apportionment of the Basic School Support Fund for the Fiscal Year Ending June 30, 1971.

b. Note: Revenues from local property tax levies. Source: Table 1, page 5; Summary of Levies and Assessments and Analysis of City and County Property Tax Levies for 1970-71 Fiscal Year. Totals for each county ÷ column 2.

c. Column 4 = Column 3 — $674.93. Parentheses indicate negative amounts.

d. Source: Table 10, pages 48-9; Summary of Levies and Assessments.

e. Source: School District Tax Revenues (SDR), Table 1, page 5; Assessed Value (AV), Table 10, pages 48-9; Summary of Levies and Assessments. Column 6 = (SDR ÷ AV) x 1000.

f. Column 7 = [(Column 4 x Column 2) ÷ AV] x 1000.

g. Note: * indicates counties with per student expenditure below $674.93. Unmarked values are realized tax rate change from current rates for counties with Column 3 greater than $674.93; Column 8 = (Column 7 + 18.159 — Column 6) ÷ Column 6.

OREGON LABOR FORCE

Industry	Jan. 1972*	Dec. 1971†	Jan. 1971
Civilian labor force	935,600	918,100	906,200
Unemployment	63,600	50,600	72,500
Unemployment as a percent of labor force	6.8	6.1	8.0
Workers in labor management disputes	100	0	0
Total employment	871,900	868,500	833,700
Agricultural employment	38,100	19,100	38,800
Nonagricultural employment	833,800	849,400	794,900
Self-employed and domestics	111,800	112,400	110,000
Wage and salary‡	722,000	737,000	684,900
Total manufacturing	167,500	170,900	159,000
Durable goods	123,100	124,300	115,600
Lumber and wood products	68,000	69,400	63,000
Logging and sawmills	43,000	44,400	41,000
Veneer and plywood	25,300	25,400	23,900
Other durable goods	55,100	55,200	52,600
Nondurable goods	44,400	46,600	44,000
Food and kindred products	19,200	21,300	18,400
Paper and allied products	9,400	9,500	9,100
Other nondurable goods	15,800	15,800	15,600
Mining	1,200	1,200	1,100
Contract construction	28,400	29,700	24,100
Transportation	29,800	30,700	28,800
Communication and utilities	19,200	19,100	18,400
Wholesale trade	43,800	43,800	42,400
Retail trade	121,700	129,700	114,000
Finance, insurance, and realty	37,500	37,600	35,300
Services and miscellaneous	116,900	118,300	111,600
Government	156,000	156,000	150,200
Federal	24,700	25,400	24,500
State and local education	79,800	79,500	77,700
State and local public administration	51,500	51,100	48,000

* Preliminary. † Revised.

‡ Includes full- and part-time wage and salary workers in pay periods including the 12th of the month. Proprietors, self-employed, private household workers, and armed forces excluded.

Source: Oregon Employment Division, Research and Statistics Section, "Oregon Labor Force," one-sheet report, Feb. 1972.

BANK DEBITS AND BANK DEPOSITS IN OREGON
(thousands)

County	Bank deposits 1971	Bank deposits 1970	Bank debits 1971	Bank debits 1970
Baker	$ 32,500	$ 28,672	$ 245,816	$ 216,211
Benton	91,534	84,759	770,760	540,777
Clackamas	217,126	187,905	1,898,149	1,549,562
Clatsop	68,444	65,432	437,409	386,686
Columbia	38,645	35,401	249,691	221,706
Coos	117,715	105,441	636,907	574,619
Curry	32,156	28,459	241,747	186,522
Deschutes	73,865	64,940	575,219	455,444
Douglas	145,444	130,942	1,190,007	1,063,587
Jackson	183,105	163,086	1,690,475	1,379,406
Josephine	73,917	65,474	504,915	410,551
Klamath	82,404	78,044	720,842	683,872
Lane	370,229	305,685	3,786,224	3,102,262
Lincoln	58,810	51,028	380,434	263,324
Linn	134,084	120,256	1,088,521	1,017,420
Malheur	54,832	49,979	575,215	544,176
Marion	346,267	314,645	5,040,724	4,357,616
Morrow	13,832	13,160	111,073	102,631
Multnomah	1,995,622	1,788,209	41,280,740	37,112,435
Polk	26,225	22,216	233,850	215,791
Tillamook	39,063	35,535	207,152	185,079
Umatilla	86,909	80,553	655,841	584,037
Union	33,121	37,544	179,744	168,250
Wasco	50,045	45,665	316,922	289,347
Washington	227,633	199,219	2,377,947	1,839,825
Yamhill	79,960	72,562	532,923	476,870
Crook	25,852	20,622		
Harney	18,161	16,650	365,030	327,080
Lake	19,662	18,236		
Gilliam	7,638	7,435		
Jefferson	18,166	15,193	177,408	157,576
Wheeler	3,570	3,421		
Grant	14,901	13,639	143,482	136,290
Wallowa	16,901	15,053		
Hood River	31,091	29,736	213,174	191,227
Sherman	1,663	1,196		
Oregon	$ 4,851,757	$ 4,327,985	$66,745,322	$59,596,057

Source: Bank deposits: Oregon Dept. of Commerce, Banking Division, *Annual Report*, 1970, and special report, Feb. 1972. Bank debits: original compilations of data collected monthly from officials of Oregon banks and branch banks by the Bureau of Business and Economic Research, University of Oregon.

CONSUMER PRICE INDEX*
(1967 = 100)

Month and year	Portland† All items§	Portland† Food	U.S. city average‡ All items	U.S. city average‡ Food
1970: July	113.5	110.8	116.7	115.8
October	114.5	110.9	118.1	115.5
1971: January	114.9	111.7	119.2	115.5
April	114.7	113.6	120.2	117.8
July	116.2	114.6	121.8	119.8
October	117.4	112.5	122.6	118.9
November			122.6	119.0
December			123.1	120.3

* Measures time-to-time changes in prices of goods and services purchased by urban wage earners and clerical workers, both families and single workers; does not indicate whether it costs more to live in one area than in another.

† Includes not only the city of Portland but the entire urban portion of Clackamas, Multnomah, and Washington counties in Oregon and of Clark county in Washington.

‡ Average of 56 "cities" (metropolitan areas and nonmetropolitan urban places).

§ Computed once every 3 months.

Source: U.S. Bureau of Labor Statistics, *Monthly Labor Review*, various issues.

BANK DEBITS

Bureau of Business and Economic Research, University of Oregon

Bank debits represent the dollar value of checks drawn against the deposit accounts of individuals and business firms and are considered good indicators of current activity. But their value for this purpose can be impaired if they include large checks used to transfer funds for the purchase of certain kinds of capital assets that are not "business activity." There are 48 corporate banking firms in Oregon; this month the Bureau of Business and Economic Research collected data on bank debits from 389 banks and branch banks.

County	Number of banking offices reporting	Debits Jan. 1972 (thousands)	Debits Dec. 1971 (thousands)	Debits Jan. 1971 (thousands)	Percentage change Jan. 1972 Compared with Dec. 1971	Percentage change Jan. 1972 Compared with Jan. 1971
Benton	7	$ 67,628	$ 76,003	$ 64,521	−11.0	+ 4.8
Clackamas	22	158,235	183,038	125,615	−13.6	+26.0
Columbia	8	22,292	25,991	16,915	−14.2	+31.8
Coos	10	46,627	60,138	49,143	−22.5	− 5.1
Curry	5	19,233	20,540	15,023	− 6.2	+13.1
Douglas	14	98,415	122,213	74,696	−19.5	+31.8
Jackson	23	147,187	165,932	109,278	−11.3	+34.7
Josephine	5	38,305	47,123	29,759	−18.7	+28.7
Lane	36	312,133	390,520	263,757	−20.1	+18.3
Lincoln	11	24,125	30,764	22,762	−21.6	+ 5.9
Linn	16	95,347	108,941	81,266	−12.5	+17.3
Multnomah	83	3,536,618	4,067,282	2,904,019	−13.0	+21.8
Washington	28	218,836	272,214	166,387	−19.6	+31.5
Yamhill	10	44,254	48,959	38,919	− 9.6	+13.7
Baker, Union, Wallowa	9	44,134	51,781	38,393	−14.8	+15.0
Clatsop, Tillamook	11	50,394	54,828	44,280	− 8.1	+13.8
Crook, Deschutes, Jefferson	10	82,733	92,091	61,010	−10.2	+35.6
Gilliam, Grant, Morrow, Umatilla, Wheeler	17	76,515	87,717	70,661	−12.8	+ 8.3
Hood River, Sherman, Wasco	8	42,328	49,272	39,894	−14.1	+ 6.1
Harney, Malheur	8	60,597	74,811	56,941	−19.0	+ 6.4
Klamath, Lake	10	70,320	78,070	58,919	− 9.9	+19.4
Marion, Polk	38	444,372	419,580	376,694	− 1.2	+18.0
OREGON	389	$5,700,628	$6,557,808	$4,708,852	−13.1	+21.1

BUILDING PERMITS

Bureau of Business and Economic Research, University of Oregon

Building permits [illegible] Interpretation of these data must allow for time elapsed between [illegible] and the beginning of construction. Data for the counties shown do not include data for those cities which are reported separately or for the 113 other reporting centers. [illegible] Information was furnished to the Bureau of Business and Economic Research from departments in local governments.

Reporting center	New dwelling units Jan. 1972	New nonresidential Jan. 1972	Alterations additions and repairs Jan. 1972	Totals Jan. 1972	Totals Dec. 1971	Totals Jan. 1971
Albany	$ 215,740	$ 1,965	$ 2,765,512	$ 3,001,21[illegible]	$ [illegible]	$ [illegible]
Ashland	100,000	none	15,150	115,150	171,700	211,750
Astoria	none	1,250	11,900	13,150	125,117	[illegible]
Baker	none	259	24,102	24,061	57,000	66,000
Beaverton	170,222	707,500	5,400	1,091,122	361,015	421,010
Bend	82,500	none	21,251	101,750	316,000	666,000
Coos Bay	717,289	11,500	33,793	765,573	46,100	11,725
Corvallis	1,165,041	35,008	16,070	1,256,712	1,208,292	536,026
Eugene	1,011,171	108,640	229,125	2,210,519	1,901,517	1,591,850
Grants Pass	20,921	17,100	20,921	245,917	100,121	88,050
Gresham	681,410	159,406	5,750	845,566	136,875	149,366
Hillsboro	130,286	78,200	28,008	144,494	256,069	1,090,014
Klamath Falls	none	none	5,000	5,000	38,500	71,536
La Grande	58,560	29,956	14,000	102,516	37,100	47,344
McMinnville	102,000	1,570	42,457	146,027	218,717	143,560
Medford	771,816	4,700	385,700	1,162,216	627,285	178,046
Milwaukie	22,000	none	24,000	46,000	94,581	80,400
North Bend	108,860	none	13,897	122,757	103,315	202,120
Ontario	35,000	none	6,800	41,800	81,290	22,125
Pendleton	96,000	38,400	10,021	144,421	480,471	22,027
Portland	1,995,355	1,851,095	1,547,508	5,393,958	11,690,265	6,819,210
Roseburg	32,159	44,000	65,862	141,221	145,502	164,445
Salem	674,710	55,185	205,415	915,310	1,324,274	1,047,286
Springfield	1,966,743	1,178,824	39,862	3,185,429	480,196	161,478
The Dalles	19,000	none	7,000	26,000	294,450	60,388
Tigard	261,881	none	61,400	323,281	643,614	341,577
Clackamas County	2,435,606	939,482	67,600	3,442,688	2,894,311	2,187,82[illegible]
Clatsop County	15,982	7,749	30,858	54,579	98,026	91,09[illegible]
Columbia County	171,100	95	8,503	179,698	183,175	121,505
Douglas County	184,500	165,000	2,000	351,500	311,050	161,740
Lane County	857,247	22,089	195,304	1,074,640	1,208,713	856,789
Linn County	155,000	3,500	17,000	175,500	525,060	275,488
Marion County	1,640,446	123,650	101,491	1,865,581	1,013,710	810,542
Multnomah County	1,638,459	2,812,390	813,223	5,264,069	3,579,545	1,980,074
Wasco County	none	none	none	none	259,900	210,000
Washington County	1,910,927	28,990	105,550	2,045,467	2,422,406	1,588,683
Yamhill County	49,495	3,600	10,717	63,812	80,700	86,558
113 other reporting centers	4,234,733	798,697	1,193,589	6,227,019	6,258,758	3,797,980
OREGON	$25,395,048	$ 9,351,990	$ 8,202,360	$42,949,398	$41,522,401	$36,902,224

(continued from page 2)

A final question concerns possible changes in land values that might be associated with tax rate changes mentioned above. An increase or decrease in tax rates could be expected to decrease or increase, respectively, relative property values. This in turn could alter the tax base in the affected counties by changing current market values. The crucial question raised by such changes is whether they are of sufficient magnitude to dissuade households and firms from locating in a particular area, which would, in turn, affect local levels of capital investment. Current assessment levels and anticipated changes are not of a magnitude to suggest that they are major factors in locational decisions.

The final decision regarding the best plan will probably be a composite of equity and efficiency considerations and political expediency. Several commentators have suggested that the U.S. Supreme Court will have the last word, and that the wait may be long. If, however, the impact of *Serrano v. Priest* is of the magnitude claimed, is it too soon to consider the effects it may have on us?

REFERENCES

1. State of Oregon, Board of Education, "Apportionment of the Basic School Support Fund for the Fiscal Year Ending June 30, 1971." Salem, Oregon.

2. State of Oregon, Department of Revenue, "Summary of Levies and Assessments and Analysis of City and County Property Tax Levies for 1970-71 Fiscal Year." Salem, Oregon.

3. State of Oregon, Department of Revenue, "First Biennial Report, 1968-1970." Salem, Oregon.